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THE IMPACT OF LABOR STRIKES ON FINANCIAL PERFORMANCE OF MINING COMPANIES IN INDONESIA

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Abstract. The presence of labor strikes in the mining industry impact severely on the financial performance of the organization. This study is based on the historical information and accounting information taken from the financial statements of two mining companies in Indonesia. Pearson Correlation (significant level 0.01) is used to analyze the relationship between strike occurrences with operating profit (EBIT) generated by the organization. The results showed a strong correlation relationship between the impact of labor strikes on operating profit (EBIT) of the company. We therefore continued the analysis to study the negative impact on other financial indicators through comparative analysis of historical accounting financial information from two different mining companies operating in Indonesia. In a condition where one company has gone through labor strikes while the other has not. The company suffered from the strikes has slightly lower financial performance in terms of trend growth, short-term liquidity and long-term liquidity.

Keywords: Labor Strikes; Financial Performance Impact; Indonesian Mining Activities

INTRODUCTION

The scope of the paper is to analyze until which extent does labor strikes impact financial performance of mining companies in Indonesia. However, objective of the paper itself is to interpret what financial indicators are affected in both short-term and long-term as a result of the strikes occurrences. The mining industry is one of the major industries in Indonesia considering the high natural resources that the country has. This leads to several multinational companies issuing work contracts with the government of Indonesia to extract minerals to be processed and sold internationally. One of the companies is PT Freeport Indonesia (PTFI). Affiliating with Freeport-McMoRan Copper & Gold Inc, PTFI mines, processes and explores ores. The rising popularity of the name PTFI creates countless interests from labors to cooperate and join PTFI. However, the higher demand in jobs does not always signs a positivity. In 2011, labors of PTFI demanded a higher wage which leads to production delays and total stoppage. We therefore analyzed the relationship between strikes occurrences with financial performance of PTFI throughout 2009 until 2014. The method used is Pearson Correlation (significant level 0.01) to study the correlation relationship. Hence, we continued our analysist by implementing trend analysist, short-term and long-term liquidity analysist to complete our study on the whole impact of strikes on financial performance. Nevertheless, we found a strong relationship between labor strikes and financial performance of PTFI which generated negative impacts on the post-strikes period as the chaos ended in 2013.

LITERATURE REVIEW

The methods used in this study are Pearson correlation and accounting measurement. Pearson correlation method is used to measure the correlation relationship between two different variables (Gogtay Thatte 2017). Accounting measurements are used to assess the financial performance of the company. By utilizing accounting measurements, we are using the historical aspects of the company which creates a possibility of bias in managerial manipulation (McGuire, Schneeweis, & Hill, 1986).

METHODOLOGY

To begin our analysist, we must identify the correlation relationship between the labor strikes occurrences with one most critical indicator of a company's financial performance. In this case, we analyse the impact of the strikes on the historical operating profit (EBIT) of PTFI. The method used is Pearson Correlation with the subjects of strikes occurrences and EBIT of PTFI from 2009 until 2015. The result determined whether a strong correlation exists or not between the occurrences of strikes and EBIT of PTFI. A coefficient of Pearson correlation near to +1.0 or -1.0 indicates a strong correlation. However, a coefficient near to 0 meaning that there is a weaker correlation (Gogtay Thatte 2017). After the Pearson Correlation analysist is done, if a strong correlation exists it might be interesting for us to continue our financial performance analysist of PTFI by executing trend analysist of income statement, short-term liquidity and long-term liquidity. To make matters more relevant, we did a comparative analysist of all the indicators from PTFI with ANTAM, another mining company based in Indonesia that did not suffer from labor strikes. By doing this, we were able to identify significant difference between the financial performance of PTFI and ANTAM.

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Due to the limited resources of secondary data, we therefore were not able to continue our analysist just by depending on the data of PTFI. We therefore used Freeport-McMoRan Copper & Gold Inc, (FCX) historical financial data to continue our study on this paper. Alternatively, PTFI is affiliated with FCX meaning that historical data of PTFI could be reflected with FCX historical data. To prove this, we executed Pearson Correlation analysist between operating profits (EBIT) of PTFI and FCX. If, a strong correlation coefficient exists, this means the historical data of FCX is valid to be compared with ANTAM as it reflects the data of PTFI. To continue our analysist on the impact of labour strikes on financial performance of mining companies, we executed a comparative analysist of financial performance indicators from FCX and ANTAM. The financial performance indicators used are growth and decline rates of income statement trend analysist, short-term liquidity ratios and long-term liquidity ratios. Income statement trend analysist is done by calculating the year-on-year income statement components growth or decline. The components of short-term liquidity ratios that we used are current ratio and quick ratio. The components of long-term liquidity ratios that we studied consisted of leverage ratios, that we elaborated in the calculations of debt service ratio and capacity to payback debt ratio.

FINDINGS AND ARGUMENT

First of all, through Pearson correlation method, we were able to find a strong relationship between labor strikes occurences on the operating profits of PTFI. In other words, it is found that the strikes that occurred during 2011-2013 has significanlty impacted the operating profit performance of PTFI. The figures indicates a pearson correlation value of -.899 with data input of 1 for no strikes has occurred on the specific year and 2 for which strikes has occured. Resulting in a negative value close to -1.0 meaning strikes occurrences did create a significant impact on EBIT of PTFI.

Table 1. Pearson Correlation of Strikes on EBIT

Correlations

		Strikes Occurrence	PTFI EBIT
Strikes Occurrence	Pearson Correlation	1	-.899*
	Sig. (2-tailed)		.038
	N	5	5
PTFI EBIT	Pearson Correlation	-.899*	1
	Sig. (2-tailed)	.038	
	N	5	5

*. Correlation is significant at the 0.05 level (2-tailed).

Reference: Freeport-McMoRan Copper & Gold Inc, - Audited Annual Report 2011-2017

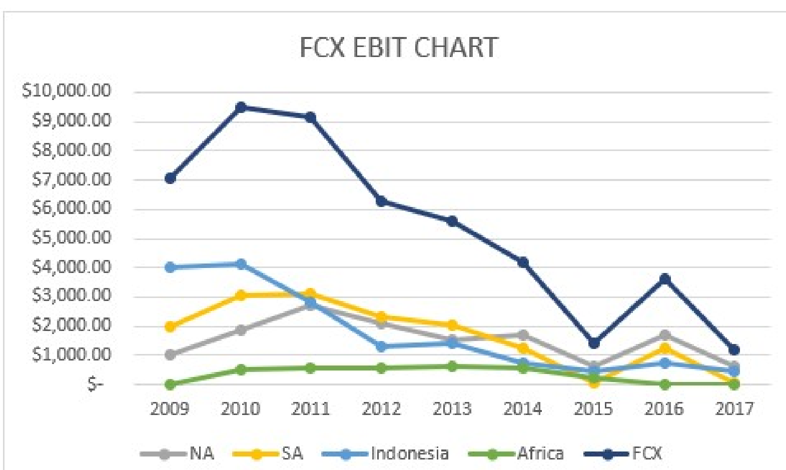

Figure 1. FCX Operating Profit Line Chart

Reference: Freeport-McMoRan Copper & Gold Inc, - Audited Annual Report 2011-2017

During the 9 years of operations, it is clearly visible that the most significant decrease happened at 2011, which on that year labor strikes started to occur. The negative impact results in the decrease of 32% of EBIT from 2010-2011. The impact on the parent company (FCX) itself at a decrease rate of 3% on their total EBIT even though on the previous year FCX has just gained a strong 35% increase of EBIT from 2009-2010.

Table 2. Short-term Liquidity Ratios Comparison of FCX and ANTAM

FCX ST Ratios	2013	2012	2011
Current Ratio	2.09	3.08	3.42
Quick Ratio	1.04	1.71	2.1
ANTAM ST Ratios	2013	2012	2011
Current Ratio	1.84	2.51	10.64
Quick Ratio	1.2	2.04	8.67

Reference: Freeport-McMoRan Copper & Gold Inc, - Audited Annual Report 2011-2013, PT ANTAM, Tbk. – Audited Annual Report 2011-2013

In the case of FCX, the company has current ratios of respectively 3.42 for 2011, 3.08 of 2012 and 2.09 for 2013. Also, for the quick ratios, they gained 2.1 for 2011, 1.71 for 2012 and 1.04 for 2013. In the case of ANTAM, the company gained current ratios of 10.64 for 2011, 2.51 for 2012 and 1.84 for 2013. For their quick ratios, they gained 8.67 for 2011, 2.04 for 2012 and 1.2 for 2013. From these figures, we can conclude that the ratios of both FCX and ANTAM are still within above 1. Which means, that both companies were actually can still be considered as liquid in the short-term at that time, even though FCX were facing labor strikes. However, we can see that the quick ratios of FCX were lower than ANTAM's. But, interestingly the current ratios of FCX were a bit higher than ANTAM's. This indicates that FCX has more risk of not being liquid in the short-term if they do not sell their inventories on time as their quick ratios were a bit lower than ANTAM. But if we compare the current ratios, FCX is still more liquid than ANTAM except for 2011 when ANTAM was gaining its highest ratio. We can conclude that FCX has more inventories compared to ANTAM in the year of 2012 and 2013. This could be the impact of labor strikes as inventories were not delivered on time. Which results in FCX gaining a slightly lower quick ratio than ANTAM.

CONCLUSIONS

The purpose of this paper is to analyze and measure the impacts of labor strikes on the financial performance of an Indonesian mining company by using Pearson correlation method, trend analysis, short-term and long-term liquidity ratios. The historical financial data were collected from audited annual reports of one of the biggest golds and copper mining company in Indonesia and a government owned multi-mining company. The research shows that labor strikes gave a significant impact on financial performance of the company from Pearson correlation model. The suffered company from labor strikes was in less health financial conditions since the first occurrences of strikes in 2011 proven by the decline of operating profit. Furthermore, from the comparisons of liquidity ratios from two different company conditions. Both short-term and long-term ratios shows affected company were suffering from less liquidity. Liquidity ratios are used to measure the ability of a company to cover up their debts from their operations. Ratios that are mentioned for short-term measurements are current ratio and quick ratio. However, recommendations to prevent the same events occurrences again are possible such as by providing more CSR. CSR or corporate social responsibility is the obligation of companies to give back to the environment where they operate. In other words, CSR has a close relationship in impacting to a positive corporate financial performance of the company. The more CSR the company gave, the less probability that the conflicts would happen.

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